ALTS

Association for Local Telecommunications Services

MAR 19 1997

EX PARTE OR LATE FILED

March 19, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M St., N.W.
Washington, D.C. 20054

Re: Ex Parte Presentation in CC Docket No. 96-45

Dear Mr. Caton:

On March 18, 1997, Heather Gold and I represented ALTS, and John Shapleigh, representing Brooks Fiber Properties, met with Diane Law and Lori Wright of the Common Carrier Bureau to discuss ALTS's views concerning the above- referenced docket. The attached four page synopsis of the ALTS position was handed out at this meeting. An original and one copy of this ex parte notice are hereby submitted.

Yours truly,

Heather B. Gold

Heather B. Gold

cc: Diane Law
Lori Wright

Attachment

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UNIVERSAL SERVICE: KEEP IT FAIR, TARGETED, AND SMALL

• A Single Fund Financed by Both Interstate and Intrastate Revenues Is Necessary to Satisfy the Universal Service Policies of the Federal Act -- The proposed Federal universal fund currently includes several expensive intrastate policy concerns (e.g., increased low-income household support, increased support for rural and small ILECS). This demands funding from all jurisdictional revenues to protect competitive neutrality (see the attached charts showing the unfair effect on new entrants of using only interstate revenues).

•• Because CLECs enter interstate access markets first, their interstate revenues are proportionately higher than the ILECs, yet ILECs will receive all the new universal service fund revenues at its start.

•• Any federal fund supported solely by interstate revenues should include only existing interstate mechanisms for rural and small ILECs (current LTS, the high cost fund, and DEM weighting), along with current Federal low-income support, each at existing or reduced levels.[1]

• Fairness in Benchmarking -- The Federal universal service fund cannot be fairly sized unless all access line revenues are included in the benchmark analysis.

• Competitive Neutrality Requires that Carrier Contributions Be Collected Via End User Surcharges -- All contributing carriers should be required to include universal service amounts as surcharges on end user bills.

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[1] See Commissioner Chong's speech of 2/26/97: "If the FCC funds the schools, libraries and health care piece on interstate and intrastate revenues, but funds the remainder of the program on interstate revenues alone -- the FCC will have little option but to contribute less federal dollars to support your state's low income consumers, as well as those consumers in rural and high cost areas."

<u>**COMPARISON OF UNIVERSAL SERVICE COST RECOVERY SCENARIOS**</u>

Assumptions:

- Total regulated revenues = $199B at yearend 1995.
- Interstate revenues are 43% of total revenues.
- Assume CLEC regulated revenues are split 50%/50% jurisdictionally (this probably overstates current intrastate revenues), and ILECs are split 75%/25%.

Scenario I -- <u>Big Federal Fund, Smaller State Funds</u>

- Possible size of Federal universal service fund ≈ $15B
- Possible size of combined state universal service funds ≈ $5B

	Allocated by <u>Total Revenues</u>	**Allocated by <u>Jurisdictional Revenues</u>**
Federal Fund	$15B/$199B = **<u>7.5%</u> of total revenues for all carriers**	$15B/$86B = 17.4% of all interstate revenues **CLECs pay <u>8.7%</u> of their <u>total</u> regulated revenues** **ILECs pay <u>4.4%</u> of their total revenues**
State Funds	$5B/$199B = **2.5% of total revenues for all carriers**	$5B/$113B = 4.4% of total <u>intra</u>state regulated revenues **CLECs pay <u>2.2%</u> of their total revenues** **ILECs pay <u>3.3%</u> of their total revenues**
TOTAL PAYMENTS AS A % OF REVENUES	**CLECs pay 10%** **ILECs pay 10%**	***CLECs pay 10.9%*** ***ILECs pay 7.7%***

Scenario II -- Smaller Federal Fund, Big State Funds

- Possible size of Federal universal service fund ≈ \$5B
- Possible size of combined state universal service funds ≈ \$15B

	Allocated by Total Revenues	**Allocated by Jurisdictional Revenues**
Federal Fund	\$5B/\$199B = **2.5% of total revenues for all carriers**	\$5B/\$86B = 5.8% of all interstate revenues **CLECs pay 2.9% of their total revenues** **ILECs pay 1.5% of their total revenues**
State Funds	\$5B/\$199B = **7.5% of total revenues for all carriers**	\$15B/\$113B = 13.3% of total intrastate revenues **CLECs pay 6.6% of their total revenues** **ILECs pay 10.0% of their total revenues**
TOTAL PAYMENTS AS A % OF REVENUES	**CLECs pay 10.0%** **ILECs pay 10.0%**	***CLECs pay 9.5%*** ***ILECs pay 11.5%***

Scenario III -- Properly Sized Federal and State Funds

- Possible size of Federal universal service fund ≈ $4B
- Possible size of combined state universal service funds ≈ $2B

	Allocated by Total Revenues	**Allocated by Jurisdictional Revenues**
Federal Fund	$4B/$199B = **2.0% of total revenues for all carriers**	$4B/$86B = 4.7% of all interstate revenues **CLECs pay 2.3% of their total revenues** **ILECs pay 1.2% of their total revenues**
State Funds	$2B/$199B = **1.0% of total revenues for all carriers**	$2B/$113B = 1.8% of total intrastate revenues **CLECs pay .9% of their total revenues** **ILECs pay 1.3% of their total revenues**
TOTAL PAYMENTS AS A % OF REVENUES	**CLECs pay 3.0% ILECs pay 3.0%**	***CLECs pay 3.2% ILECs pay 2.5%***